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topline

News, People, Trends and Other Noteworthy Items

TAX NOTES

IRS Targets High-Income Taxpayers, S Corps

One out of 11 individuals with an income of \$1 million or more faced an audit in fiscal year 2007, when the number of audits for these high-income taxpayers increased 84%, from 17,015 in 2006 to 31,382.

Overall, audits of individual returns rose by 7%, from 1,293,681 in 2006 to 1,384,563, the highest number since 1998.

When it comes to business enforcement efforts, the IRS focused on the returns of flow-through entities—S corporations and partnerships. Audits of these businesses increased by 26% and 25%, respectively, from 2006 levels, while audits of large corporations were down slightly.

The Service said that as its enforcement budget remained flat from 2006 to 2007, it could not increase audit activity across the board and therefore addressed areas where there was growth and potential risk.

Source: www.irs.gov.

TAX NOTES

Rebates to Relieve Debt

When it comes to tax rebate checks, American consumers may not be so eager to spend, spend, spend.

A CCH and Harris Interactive survey asked 2,020 adults what they would do with a broad-based tax rebate. Their responses were:

- Pay down debt—47%
- Save it—32%
- Spend it—21%

Across all income levels, paying down debt was the most common response. In terms of employment status, only 17% of respondents working full time said they'd spend the rebate, while 29% and 32% of unemployed and retired respondents were likely to spend it.

Source: CCH Complete Tax survey, www.completetax.com.

FINANCIAL REPORTING

Spending on SOX

According to *The Sarbanes-Oxley Investment: A Section 404 Cost Study for Smaller Public Companies*, a study by SOX research and consulting firm Lord & Benoit, the total average combined costs of complying with section 404(a) and section 404(b) was \$78,457. The costs ranged from as little as \$23,000 for a small software company to as much as \$197,000 for a manufacturer/distributor with many locations.

The average costs of complying with a section 404(a) management assessment for all non-accelerated filers included in the study were \$53,724 (ranging from as low as \$15,000 to as high as \$162,000).

In general, the study found that manufacturing and distribution companies incurred higher internal control compliance costs. These companies' robust purchasing, multiple subsidiaries, inventory controls, complex IT systems and large capital expenditures contributed to higher costs.

The average projected costs of complying with section 404(b) for non-accelerated filers included in the study were \$24,750. The range of audit fee increases was from as low as \$7,500 to as high as \$86,000.

Because the standard was not yet effective, the study authors derived the audit fee increases related to section 404(a) by taking the actual 2006 audit fee of each company times the projected audit fee increase that was obtained from *The Audit Analytics 2006 Audit Fee Briefing Paper*, a study by Audit Analytics, that indicated audit fees for smaller accelerated filers increased by 27% from section 404(b).

To download a complimentary copy of the report, visit www.section404.org.

Source: The Lord & Benoit Report, *The Sarbanes-Oxley Investment: A Section 404 Cost Study for Smaller Public Companies*.



DATA POINT